

**PRAIRIE LAKES  
AREA EDUCATION AGENCY 8**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2004**

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**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**OFFICIALS**

<i><b>NAME</b></i>	<i><b>TITLE</b></i>	<i><b>TERM EXPIRES</b></i>
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**Board of Directors**

Warren Clausen	President	2005
Dean Saunders	Vice President	2005
Richard McKean	Member	2004
Dr. Craig Newell	Member	2006
Darwin Hopkins	Member	2005
George Glass	Member	2004
Ramon Fisher	Member	2004
Bruce Bahnson	Member	2006
Ed O'Leary	Member	2006

**Agency**

William J. Garner	Administrator	2004
Louise Gustafson	Board Secretary	2004
Steve Beeghley	Business Manager and Treasurer	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 as of and for the year ended June 30, 2004, which collectively comprise the Prairie Lakes Area Education Agency 8's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Prairie Lakes Area Education Agency 8 at June 30, 2004 and the respective changes in financial position and cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated January 18, 2005, on our consideration of Prairie Lakes Area Education Agency 8's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 and 23 through 24 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard's Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Prairie Lakes Area Education Agency's basic financial statements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
January 18, 2005

## **PRAIRIE LAKES AREA EDUCATION AGENCY 8**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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#### **2004 FINANCIAL HIGHLIGHTS**

Prairie Lakes Area Education Agency 8 provides this Management's Discussion and Analysis of its financial statements for the year ended June 30, 2004. This was the first year of operations for Prairie Lakes Area Education Agency 8. Two former agencies, Lakeland AEA and Arrowhead AEA merged to become Prairie Lakes AEA. Official operations for the new entity began on July 1, 2003.

Because Prairie Lakes Area Education Agency 8 is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Agency's financial position and results of operations.

Total expenditures in all funds for the agency totaled \$19,220,179 during the year. Total revenues for the fiscal year were \$19,363,018. As of June 30, 2004, our ending fund balances totaled \$3,476,280. Unreserved fund balance was \$1,784,568 or 9.25% of total expenditures. Total debt for the year ended June 30, 2004 was \$1,100,000. That debt is for certificates of debt regarding our Storm Lake office complex. A total of \$516,834 of our total fund balance was escrowed to help pay off this debt. The debt will now be retired approximately five years earlier than originally planned.

Prairie Lakes Area Education Agency 8 maintains a Special Revenue Fund for classes we operate out of the prison systems in Rockwell City and Fort Dodge as well as a Juvenile Home facilities in Gruver and Fort Dodge. A Debt Service Fund is also maintained to account for the Storm Lake project. This project should now be paid off sometime in the year 2011.

Since this is the first year of operation for Prairie Lakes Area Education Agency 8, it is also the first year we are preparing financial statements following GASB 34 rules. This means that all financial data presented in this audit report establishes baseline figures from which all future revenue and expense comparisons will follow.

#### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Agency's citizens, taxpayers and customers of Prairie Lakes Area Education Agency 8 with a general overview of the Agency's finances and to demonstrate accountability for the money we received and spent. If you have questions about this report or need additional financial information, contact either Michelle Dowd, Business Manager at (515) 574-5543 or Steve Beeghley, Human Resources Coordinator at (515) 574-5510. The mailing address is Prairie Lakes Area Education Agency 8, 1235 5<sup>th</sup> Avenue South, Fort Dodge, Iowa 50501-1399.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**



## **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET ASSETS

June 30, 2004

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and pooled investments	\$ 2,521,880	\$ -	\$ 2,521,880
Receivables:			
Accounts	192,495	-	192,495
Due from other governments	3,000,805	-	3,000,805
Inventories	160,684	-	160,684
Prepaid expenses	516,834	-	516,834
Capital assets (net of accumulated depreciation)	3,094,385	-	3,094,385
<b>Total assets</b>	<b>9,487,083</b>	<b>-</b>	<b>9,487,083</b>
<b>Liabilities</b>			
Accounts payable	1,074,431	-	1,074,431
Salaries and benefits payable	1,661,084	-	1,661,084
Deferred revenue:			
Federal	151,586	-	151,586
Other	29,317	-	29,317
Long-term liabilities			
Portion due or payable within one year:			
Certificates of participation	65,000	-	65,000
Compensated absences	69,484	-	69,484
Portion due or payable after one year:			
Certificates of participation	1,035,000	-	1,035,000
Compensated absences	410,305	-	410,305
<b>Total liabilities</b>	<b>4,496,207</b>	<b>-</b>	<b>4,496,207</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,994,385	-	1,994,385
Restricted for:			
Debt service	140,203	-	140,203
Unrestricted	2,856,288	-	2,856,288
<b>Total net assets</b>	<b>4,990,876</b>	<b>-</b>	<b>4,990,876</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,487,083</b>	<b>\$ -</b>	<b>\$ 9,487,083</b>

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2004**

	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Functions/Programs:</b>			
Governmental Activities:			
Instruction	\$ 909,849	\$ 99,502	\$ 1,049,712
Student support services	9,657,645	-	7,290,783
Instructional staff support services	4,498,661	264,014	4,577,338
General administration	996,553	-	-
Business administration	1,205,910	202,292	-
Plant operations and maintenance	672,402	-	-
Central and other support services	1,236,804	291,089	311,582
Interest on long-term debt	73,288	-	718
Total governmental activities	19,251,112	856,897	13,230,133
Business-type Activities:			
Non-instructional programs:			
Cooperative purchasing	4,467	4,467	-
Total	\$ 19,255,579	\$ 861,364	\$ 13,230,133

**General Revenues:**

Property taxes

Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 239,365	\$ -	\$ 239,365
(2,346,862)	-	(2,346,862)
575,744	-	575,744
(996,553)	-	(996,553)
(1,003,618)	-	(1,003,618)
(672,402)	-	(672,402)
(887,186)	-	(887,186)
(72,570)	-	(72,570)
(5,164,082)	-	(5,164,082)
-	-	-
(5,164,082)	-	(5,164,082)
5,252,620	-	5,252,620
18,941	-	18,941
107,479	-	107,479
4,883,397	-	4,883,397
\$ 4,990,876	\$ -	\$ 4,990,876

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2004

	General	Special Revenue Special Education Instruction	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 2,354,988	\$ 26,689	\$ 140,203	\$ 2,521,880
Receivables:				
Accounts	178,273	14,222	-	192,495
Due from other governments	3,000,805	-	-	3,000,805
Inventories	160,684	-	-	160,684
Prepaid expenses	516,834	-	-	516,834
<b>Total assets</b>	<b>\$ 6,211,584</b>	<b>\$ 40,911</b>	<b>\$ 140,203</b>	<b>\$ 6,392,698</b>
<b>Liabilities and Fund Balances</b>				
Accounts payable	\$ 1,074,312	\$ 119	\$ -	\$ 1,074,431
Salaries and benefits payable	1,661,084	-	-	1,661,084
Deferred revenue:				
Federal	95,877	55,709	-	151,586
Iowa	29,317	-	-	29,317
<b>Total liabilities</b>	<b>2,860,590</b>	<b>55,828</b>	<b>-</b>	<b>2,916,418</b>
<b>Fund balances:</b>				
Reserved for:				
Inventories	160,684	-	-	160,684
Media materials	280,726	-	-	280,726
Prepaid expenses	516,834	-	-	516,834
Encumbrances	35,350	-	-	35,350
Certificate of deposit	93,043	-	-	93,043
Unreserved:				
Designated for subsequent year's expenditures	479,789	-	-	479,789
Undesignated	1,784,568	(14,917)	140,203	1,909,854
<b>Total fund balances</b>	<b>3,350,994</b>	<b>(14,917)</b>	<b>140,203</b>	<b>3,476,280</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,211,584</b>	<b>\$ 40,911</b>	<b>\$ 140,203</b>	<b>\$ 6,392,698</b>

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2004**

**Total governmental fund balances (page 13)** \$ 3,476,280

*Amounts reported for governmental activities in the statement of net assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$5,852,765 and the accumulated depreciation is \$2,758,380.

3,094,385

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,579,789)

**Net assets of governmental activities (page 10)**

\$ 4,990,876

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES -- GOVERNMENTAL FUNDS  
Year Ended June 30, 2004**

	<b>General</b>	<b>Special Revenue Special Education Instruction</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
Revenues:				
Local sources	\$ 5,760,905	\$ 99,502	\$ 718	\$ 5,861,125
State sources	5,856,621	264,014	-	6,120,635
Federal sources	7,381,258	-	-	7,381,258
<b>Total revenues</b>	<b>18,998,784</b>	<b>363,516</b>	<b>718</b>	<b>19,363,018</b>
Expenditures:				
Current:				
Instruction	534,687	364,251	-	898,938
Student support services	9,657,645	-	-	9,657,645
Instructional staff support services	1,938,988	-	-	1,938,988
General administration	977,856	7,339	-	985,195
Business administration	1,179,877	-	-	1,179,877
Plant operations and maintenance	672,402	-	-	672,402
Central and other support services	3,753,846	-	-	3,753,846
Debt service	-	-	133,288	133,288
<b>Total expenditures</b>	<b>18,715,301</b>	<b>371,590</b>	<b>133,288</b>	<b>19,220,179</b>
Excess (deficiency) of revenues over (under) expenditures	283,483	(8,074)	(132,570)	142,839
Other financing sources (uses):				
Transfers in	-	-	133,288	133,288
Transfers out	(133,288)	-	-	(133,288)
<b>Total financing sources (uses)</b>	<b>(133,288)</b>	<b>-</b>	<b>133,288</b>	<b>-</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	150,195	(8,074)	718	142,839
Fund balances, beginning of year	3,200,799	(6,843)	139,485	3,333,441
Fund balances, end of year	\$ 3,350,994	\$ (14,917)	\$ 140,203	\$ 3,476,280

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES --  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004**

**Net change in fund balances - total governmental funds (page 15)** \$ 142,839

*Amounts reported for governmental activities in the statement of  
activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 128,747	
Depreciation expense	<u>(242,837)</u>	(114,090)

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

60,000

Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.

18,730

**Change in net assets of governmental activities (pages 11-12 )**

\$ 107,479

See Notes to Financial Statements.



**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit G**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUND TYPE  
Year Ended June 30, 2004**

	<u>Cooperative Purchasing</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ -
Due from other governments	-
Inventories	-
<b>Total</b>	<u>-</u>
<b>LIABILITIES</b>	
Accounts payable	<u>-</u>
<b>NET ASSETS</b>	
Unrestricted	<u>\$ -</u>

See notes to financial statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit H**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
NET ASSETS - PROPRIETARY FUND TYPE  
Year Ended June 30, 2004**

	<u><b>Cooperative Purchasing</b></u>
Operating revenues:	
Charges for service	\$ 4,467
Operating expenses:	
Non-instructional programs	
Supplies and materials	<u>4,467</u>
<b>Total expenditures</b>	<u><b>4,467</b></u>
Net change	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -</u></u>

See Notes to Financial Statements.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**Exhibit I**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE**  
**Year Ended June 30, 2004**

	<u><b>Cooperative Purchasing</b></u>
Cash Flows from Operating Activities	
Cash received from users	\$ 4,467
Cash paid to suppliers	<u>(4,467)</u>
Net cash used by operating activities	-
Cash and cash equivalents beginning of year	<u>-</u>
Cash and cash equivalents end of year	<u><u>\$ -</u></u>
See Notes to Financial Statements.	

## PRAIRIE LAKES AREA EDUCATION AGENCY 8

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1. Summary of Significant Accounting Policies**

Prairie Lakes Area Education Agency 8 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 48 school districts and private schools in a 14-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

#### **A. Reporting entity:**

For financial reporting purposes, Prairie Lakes Area Education Agency 8 has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Prairie Lakes Area Education Agency 8 has no component units which meet the Governmental Accounting Standards Board criteria.

#### **B. Basis of Presentation:**

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for program where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities that are performed as a service to staff on a cost-reimbursement basis.

#### C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund of the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charged to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### D. Assets, Liabilities and Fund Equity:

Cash and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

## NOTES TO FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities and Fund Equity (continued):

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Buildings	\$ 5,000
Vehicles	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50
Vehicles	5
Furniture and equipment	10
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **D. Assets, Liabilities and Fund Equity (continued):**

Long-term Obligations – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

### **Note 2. Cash and Pooled Investments**

The Agency's deposits in banks at June 30, 2004 were entirely covered by Federal depository insurance or by the State sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$19,964 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.



## NOTES TO FINANCIAL STATEMENTS

### Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 117,912	\$ -	\$ -	\$ 117,912
Total capital assets not being depreciated	117,912	-	-	117,912
Capital assets being depreciated:				
Buildings	3,170,550	-	-	3,170,550
Furniture and equipment	185,307	12,990	-	198,297
Vehicles	78,455	-	-	78,455
Library books and films	2,171,794	115,757	-	2,287,551
Total capital assets being depreciated	5,606,106	128,747	-	5,734,853
Less accumulated depreciation for:				
Buildings	1,048,508	59,411	-	1,107,919
Furniture and equipment	151,434	6,812	-	158,246
Vehicles	56,095	9,180	-	65,275
Library books and films	1,259,506	167,434	-	1,426,940
	2,515,543	242,837	-	2,758,380
Total capital assets being depreciated, net	3,090,563	(114,090)	-	2,976,473
Governmental activities capital assets, net	\$ 3,208,475	\$ (114,090)	\$ -	\$ 3,094,385

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Instruction	\$ -
Student support services	3,935
Instructional staff support services	167,434
General administration	608
Business administration	-
Plant operations and maintenance	61,680
Central and other support services	9,180
Total governmental activities depreciation expense	\$ 242,837

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance End of Year</b>	<b>Due Within One Year</b>
Certificates of Participation	\$1,160,000	\$ -	\$ 60,000	\$ 1,100,000	\$ 65,000
Compensated absences	514,679	274,970	309,860	479,789	69,484
	<u>\$1,674,679</u>	<u>\$ 274,970</u>	<u>\$ 369,860</u>	<u>\$ 1,579,789</u>	<u>\$ 134,484</u>

#### Certificates of Participation:

The Agency has sold Certificates of Participation for the acquisition, the remodeling and improvement of, and the installation of furnishings and equipment in an administrative center for a total of \$1,500,000. The Certificates of Participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twenty years with an interest rate ranging from 5.85% to 6.75%. The following is a schedule by year of the future minimum payments required:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 65,000	\$ 67,137	\$ 132,137
2006	70,000	62,613	132,613
2007	75,000	57,719	132,719
2008	75,000	52,994	127,994
2009	80,000	48,400	128,400
Thereafter	735,000	173,562	908,562
	<u>\$ 1,100,000</u>	<u>\$ 462,425</u>	<u>\$ 1,562,425</u>

Payments for the Certificates of Participation for the year ended June 30, 2004, including interest, totaled \$133,288.

## NOTES TO FINANCIAL STATEMENTS

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### Note 5. Operating Leases

The Agency has leased various equipment and facilities within the area to support and house the different divisions of the Agency. These leases have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2005 and June 30, 2007. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 165,552
2006	39,265
2007	25,000
2008	-
2009	-
Thereafter	-
	<u>\$ 229,817</u>

The total rental expenditures for the year ended June 30, 2004 for all operating leases, except those with terms of a month or less that were not renewed, was \$116,329.

### Note 6. Lease of Office Space

The Agency, as lessor, leases 55% of a building as office space to several entities. The lease terms expire in various years through 2012 and range from \$6,000 to \$30,635 per lease annually.

At June 30, 2004 future minimum lease payments receivable under noncancelable operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 71,435
2006	65,435
2007	65,435
2008	57,435
2009	30,635
Thereafter	122,542
	<u>\$ 412,917</u>

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 7. Pension and Retirement Benefits**

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2004 was \$327,944 equal to the required contribution for the year.

### **Note 8. Risk Management**

Prairie Lakes Area Education Agency 8 is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **Note 9. Reorganization**

On July 31, 2003, Arrowhead Area Education Agency 5 and Lakeland Area Education Agency 3 voluntarily reorganized calling the newly merged agency Prairie Lakes Area Education Agency 8. Prairie Lakes Area Education Agency 8 will serve school districts in Clay, Dickinson, Emmet, Kossuth, Palo Alto, Buena Vista, Calhoun, Greene, Hamilton, Humboldt, Pocahontas, Sac, Webster and Wright counties.

### **Note 10. Deficit Fund Balance**

The Special Revenue Fund, Special Education Instruction had a deficit balance of \$14,917 at June 30, 2004. The deficit balance was a result of under-charging of expenditures to the school districts. The deficit will be eliminated through a rate increase established in July 2004.

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**PRAIRIE LAKES AREA EDUCATION AGENCY 8**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -- BUDGET AND ACTUAL  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND**

**Required Supplementary Information**

**Year Ended June 30, 2004**

	<b>Governmental Fund Types Actual</b>	<b>Proprietary Fund Types Actual</b>	<b>Total Actual</b>
Revenues:			
Local sources	\$ 5,861,125	\$ 4,467	\$ 5,865,592
State sources	6,120,635	-	6,120,635
Federal sources:	7,381,258	-	7,381,258
<b>Total revenues</b>	<b>19,363,018</b>	<b>4,467</b>	<b>19,367,485</b>
Expenditures/Expenses:			
Current:			
Instruction	898,938	-	898,938
Student support services	9,657,645	-	9,657,645
Instructional staff support services	1,938,988	-	1,938,988
General administration	985,195	-	985,195
Business administration	1,179,877	-	1,179,877
Plant operations and maintenance	672,402	-	672,402
Central and other support services	3,753,846	-	3,753,846
Noninstitutional programs	-	4,467	4,467
Debt service	133,288	-	133,288
<b>Total expenditures/expenses</b>	<b>19,220,179</b>	<b>4,467</b>	<b>19,224,646</b>
<b>Excess of revenues over expenditures/expenses</b>	<b>142,839</b>	<b>-</b>	<b>142,839</b>
Other financing uses, net	-	-	-
<b>Excess of revenues and other financing sources over expenditures/expenses and other financing uses</b>	<b>142,839</b>	<b>-</b>	<b>142,839</b>
Balance, beginning of year	3,333,441	-	3,333,441
Balance, end of year	<u>\$ 3,476,280</u>	<u>\$ -</u>	<u>\$ 3,476,280</u>

See accompanying Independent Auditor's Report.

<b>Budget</b>		<b>Final to Actual Variance Favorable (Unfavorable)</b>
<b>Original</b>	<b>Final</b>	
\$ 6,103,733	\$ 6,103,733	\$ (238,141)
7,612,121	7,989,533	(1,868,898)
5,093,944	5,320,453	2,060,805
18,809,798	19,413,719	(46,234)

588,103	814,612	(84,326)
10,028,756	10,372,115	714,470
4,082,536	4,116,589	2,177,601
1,504,556	1,504,556	519,361
1,116,642	1,116,642	(63,235)
578,491	578,491	(93,911)
910,714	910,714	(2,843,132)
-	-	(4,467)
-	-	(133,288)
18,809,798	19,413,719	189,073

-	-	142,839
-	-	-

-	-	142,839
3,156,239	3,156,239	177,203
\$ 3,156,239	\$ 3,156,239	\$ 320,042



**PRAIRIE LAKES AREA EDUCATION AGENCY 8**  
**June 30, 2004**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

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The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Budgetary control is based on total expenditures.

## **OTHER SUPPLEMENTARY INFORMATION**

**COMBINING BALANCE SHEETS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2004**

	<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
<b>Assets</b>			
Cash and pooled investments	\$ 26,689	\$ 140,203	\$ 166,892
Accounts receivable	14,222	-	14,222
<b>Total assets</b>	<b>\$ 40,911</b>	<b>\$ 140,203</b>	<b>\$ 181,114</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Account payable	\$ 119	\$ -	\$ 119
Deferred revenue:			
Federal	55,709	-	55,709
<b>Total liabilities</b>	<b>55,828</b>	<b>-</b>	<b>55,828</b>
Fund balances:			
Unreserved, undesignated fund balance	(14,917)	140,203	125,286
<b>Total liabilities and fund balances</b>	<b>\$ 40,911</b>	<b>\$ 140,203</b>	<b>\$ 181,114</b>

See Accompanying Independent Auditor's Report.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2004**

	<div> <div>Special Revenue</div> <div>Juvenile Home</div> <div>Debt Service</div> <div>Total</div> </div>		
Revenues:			
Local sources	\$ 99,502	\$ 718	\$ 100,220
State sources	264,014	-	264,014
<b>Total revenues</b>	<b>363,516</b>	<b>718</b>	<b>364,234</b>
Expenditures:			
Current:			
Instruction	364,251	-	364,251
General administration	7,339	-	7,339
Debt service	-	133,288	133,288
<b>Total expenditures</b>	<b>371,590</b>	<b>133,288</b>	<b>504,878</b>
<b>(Deficiency) of revenues (under) expenditures</b>	<b>(8,074)</b>	<b>(132,570)</b>	<b>(140,644)</b>
Other financing sources:			
Transfers in	-	133,288	133,288
<b>(Deficiency) of revenues and other financing sources (under) expenditures</b>	<b>(8,074)</b>	<b>718</b>	<b>(7,356)</b>
Fund balances beginning of year	(6,843)	139,485	132,642
Fund balances end of year	\$ (14,917)	\$ 140,203	\$ 125,286

See accompanying Independent Auditor's Report.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

		Pass-through	
Project Title	CFDA	Grantor's	Expenditures
	Number	Number	
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Education of Handicapped Act (EHA) Part B - 94-142:			
Special Education - Grants to States (IDEA, Part 3):			
Early Childhood Education for the Handicapped	84.027*	030408	\$ 4,087,083
Early Childhood Education for the Handicapped	84.027*	4KB2-08	1,399,648
Special Education - Preschool Grants (IDEA			
Preschool)- Section 619, Age 3-5	84.173	03619-08	309,356
Special Education - Grants for Infants and Families			
with Disabilities - 94-142 Part C:			
IDEA, Part C, Infants and Toddlers	84.181	C03-08	269,735
Special Education - Grants to States (IDEA, Part 3) -			
Miscellaneous 94-142:			
Diagnostic Evaluation Program	84.027*	3K71-08	16,411
Supplemental Support Services	84.027*	3kK72-08	272,892
Success 4	84.027*	3K75-08	154,016
Parent Educator Project	84.027*	37408	77,557
Para-Educator Project	84.027*	3K76-08	10,299
SIG/IEP Improvement Project	84.323	3IEP-08	13,762
Reading First	84.357		18,807
Innovative Leadership	84.276A		40,218
Title III ELL/LEP	84.365		190,714
Enhancing Education Through Technology	84.318*		442,015
Public Law 103-761:			
Title I Accountability Grant - Reimbursement to Schools	84.348		68,282
Received from the University of Iowa:			
Assistive Tech Training for AEA/LEA Personnel	84-027-1*		10,463
Total Expenditures of Federal Awards			\$ 7,381,258

\* Total expenditures for CFDA Numbers 84.027 and 84.318 were \$6,028,369 and \$442,015, respectively.

**Basis of Presentation:** The Schedule of Expenditures of Federal Awards includes the federal grant activity of Prairie Lakes Area Education Agency 8 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

We have audited the financial statements of Prairie Lakes Area Education Agency 8, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 18, 2005. We conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Prairie Lakes Area Education Agency 8's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no statutory comments in the prior year.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that could be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-03 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8, and other parties to whom Prairie Lakes Area Education Agency 8 may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
January 18, 2005

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors of  
Prairie Lakes Area Education Agency 8  
Fort Dodge, Iowa

**Compliance**

We have audited the compliance of Prairie Lakes Area Education Agency 8, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Prairie Lakes Area Education Agency 8's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Prairie Lakes Area Education Agency 8's management. Our responsibility is to express an opinion on Prairie Lakes Area Education Agency 8's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prairie Lakes Area Education Agency 8's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Prairie Lakes Area Education Agency 8's compliance with those requirements.

In our opinion, Prairie Lakes Area Education Agency 8 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.



## **Internal Control Over Compliance**

The management of Prairie Lakes Area Education Agency 8 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Prairie Lakes Area Education Agency 8's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Prairie Lakes Area Education Agency's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Prairie Lakes Area Education Agency 8 and other parties to whom Prairie Lakes Area Education Agency 8 may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
January 18, 2005

## **PRAIRIE LAKES AREA EDUCATION AGENCY 8**

### **Schedule of Findings and Questioned Costs Year Ended June 30, 2004**

#### **Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 84.027 – Special Education – Grants to States
  - CFDA Number 84.318 – Enhancing Education Through Technology
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Prairie Lakes Area Education Agency 8 did not qualify as a low-risk auditee.

#### **Part II: Findings Related to the General Purpose Financial Statements:**

##### **Instances of Non-Compliance:**

No matters were reported.

##### **Reportable Conditions:**

II-A-04     Segregation of Duties: One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that cash receipts listing is not prepared separate from the cash receipt function. In addition, signature stamps are maintained by individuals responsible for check preparation.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the Agency should review its operating procedures to obtain the maximum internal control possible under the circumstances.

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2004**

**Part II: Findings Related to the General Purpose Financial Statements (Continued):**

Response: We will investigate available alternatives and implement as soon as possible.

Conclusion: Response accepted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**Instances of Non-Compliance:**

No matters were reported.

**Reportable Conditions:**

All programs displayed on the schedule of expenditures of Federal awards.

III-A-04 Segregation of Duties: The Agency did not properly segregate record keeping and reconciling functions for cash receipts, including those related to Federal programs. See audit finding II-A-04.

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-04 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Budget: Expenditures during the year ended June 30, 2004 did not exceed the amount budgeted.

IV-C-04 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-04 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-E-04 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-F-04 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-G-04 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes, but were not.

**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2004**

IV-H-04    Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.

IV-I-04    Certified Annual Report: The Certified Annual Report was filed with the Department of Education timely. However, we noted differences in the amounts reported.

Recommendation: The Certified Annual Report should be amended to agree with the audit report.

Response: We will amend the report.

Conclusion: Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Prairie Lakes Area Education Agency 8 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schnurr & Company, LLP*

Fort Dodge, Iowa  
January 18, 2005